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Monopsony

What Is a Monopsony?

A monopsony is a market condition in which there is only one buyer, the monopsonist. Like a monopoly, a monopsony also has imperfect market conditions. The difference between a monopoly and monopsony is primarily in the difference between the controlling entities. A single buyer dominates a monopsonized market while an individual seller controls a monopolized market. Monosonists are common to areas where they supply most or all of the region's jobs.

KEY TAKEAWAYS

- A monopsony refers to a market dominated by a single buyer.
- In a monopsony, a single buyer generally has a controlling advantage that drives its consumption price levels down.
- Monopsonies commonly experience low prices from wholesalers and an advantage in paid wages.

Understanding Monopsony

In a monopsony, a large buyer controls the market. Because of their unique position, monopsonies have a wealth of power. For example, being the primary or only supplier of jobs in an area, the monopsony has the power to set wages. In addition, they have bargaining power as they are able to negotiate prices and terms with their suppliers.

There are several scenarios where a monopsony can occur. **In a monopsony, the controlling body is a buyer.** This buyer may use its size advantage to obtain low prices because many sellers vie for its business.Monopsonies take many different forms and may occur in all types of markets. For example, some economists have accused Ernest and Julio Gallo–a conglomerate of wineries and wine producers–of being a monopsony. The company is so large and has so much buying power over grape growers that grape wholesalers have no choice but to lower prices and agree to the company's terms.

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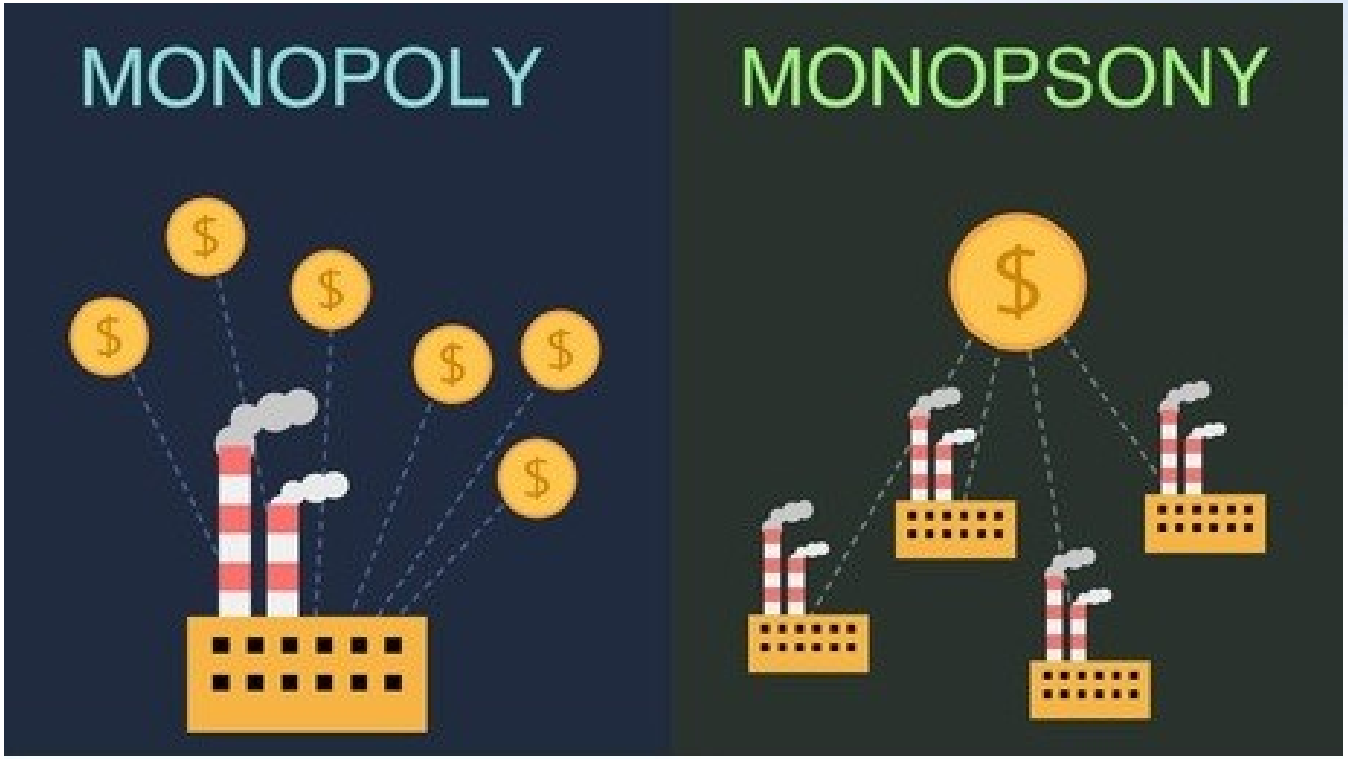
Monopoly VS Monopsony



Monopsony and Employee Wages

Monopsony can also be common in labor markets when a single employer has an advantage over the workforce. When this happens, the wholesalers, in this case, the potential employees, agree to a lower wage because of factors resulting from the buying company's control. This wage control drives down the cost to the employer and increases profit margins.

The technology engineering market offers one example of wage suppression. With only a few large tech companies in the market requiring engineers, major players such as Cisco, Oracle and others have been accused of conspiring on wages to minimize labor costs so that the major tech companies can generate higher profits. This example illustrates a sort of oligopsony in which multiple companies are involved.

Taken from: https://www.investopedia.com/terms/m/monopsony.asp